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SENSITIVE
SIPDIS

AF/S FOR B. WALCH
DRL FOR N. WILETT
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS
STATE PASS TO USAID FOR J. HARMON AND L. DOBBINS
STATE PASS TO NSC FOR SENIOR AFRICA DIRECTOR MICHELLE GAVIN

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SUBJECT: BUSINESS SECTOR WANTS MORE MARKET-FRIENDLY REFORMS

SUMMARY

¶1. (SBU) The Zimbabwe National Chamber of Commerce (ZNCC) held its annual congress in Bulawayo from June 24 to 26 and stressed the need for government to redefine its role: move out of the production of goods and services and concentrate on creating a more conducive macroeconomic environment for business growth. The government was further urged to go into partnerships with the private sector as a means of mitigating and sharing risk in infrastructure projects. Participants agreed that successful partnerships are dependent upon an improved investment climate which must be facilitated by political and economic reform. END SUMMARY.

Government must support more market-friendly policies

¶2. (SBU) Deputy Prime Minister Thokozani Khupe told delegates that government will concentrate on creating a favorable macroeconomic environment for businesses to thrive. She said that the State will only participate in infrastructure projects alongside private partners to share risks. This was echoed by the chairman of the Institute of Directors, David Mutambara, who stated that government has no business in the production of goods and services in the economy. He went on to say that government itself needed to implement good governance principles and make itself more accountable to the electorate.

¶3. (SBU) Daniel Ndlela, a director of the economic consulting firm Zimconsult, told delegates that the current poor state of infrastructure was inimical to growth in investment and trade in Zimbabwe. Indeed, Charles Chikaura, the Chief Executive of the Infrastructure Development Bank of Zimbabwe (IDBZ), said that 25 percent of the barriers to trade are attributable to poor infrastructure. He explained that there is a serious lack of funds even within his own

organization to upgrade the state of Zimbabwe's infrastructure. He therefore supported the adoption of smart partnerships between government and the private sector through mechanisms such as build-operate-and-transfer or build-transfer-and-operate.

Utilities and private sector need to "get prices right"

¶4. (SBU) Most presenters stated that high utility prices were a major constraint to implementing sustainable turnaround strategies. ZNCC President Obert Sibanda told delegates that companies cannot increase capacity utilization until utilities have been priced more competitively. He also blamed poor service delivery by most parastatal utilities for being a hindrance to corporate performance. Khupe pointed out that most private companies were not basing prices on costs. She stressed the need for companies to get out of the hyperinflationary mindset of the past four years, given the hyperinflationary mindset of the past four years, given the price stability brought about by dollarization. Ndlela recommended that local companies look beyond the domestic market and attempt to expand exports. Quoting a survey done by his company, Ndlela said 82 percent of the 40 firms interviewed concentrated on producing for the local market.

GOZ's responsibility to improve the investment climate

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¶5. (SBU) Ndlela told the conference that very little foreign investment has come into Zimbabwe since 1997 because of a number of problems. He identified macroeconomic instability, poor infrastructure, and a poor investment climate characterized by lack of property rights and disregard for the rule of law as the major impediments. Ndlela also said that in recent months, lack of credit has become a major problem as local manufacturers cannot get access to credit due to illiquidity in the banking sector. The Principal Director in the Ministry of Finance, Mutasa Dzinotizei, said that liquidity problems were a result of the loss of confidence in the banking system arising from hyperinflation.

Investors need a "kiss"

¶6. (SBU) Nyasha Zhou, the Chief Executive Officer of PG Industries Limited, which manufactures wood and furniture products, said that high levels of corruption in government drove away potential investors. Zhou added that the political environment had not improved sufficiently to encourage foreign financial inflows. Sibanda urged politicians to quickly resolve the outstanding issues of the global political agreement (GPA) to improve the country's credit risk profile. He proposed that rather than ask for "no strings attached" aid, government should "kiss" foreign investors and entice them into coming to Zimbabwe.

¶7. (SBU) The suggestion that it was necessary to court investors infuriated the Minister of Mines and Mineral Development, Obert Mpofu, who angrily declared that the political environment had improved greatly. He told the congress that his ministry had withdrawn the controversial proposed amendment to the Mines and Minerals Act that sought to require that indigenous black Zimbabweans hold a 51 percent ownership stake in any Zimbabwe-based foreign mining operation. He said the Act should be more investor-friendly and in line with the changing political environment. Mpofu attacked businesses for not acknowledging the changes taking place. Then, instead of waiting for discussions that followed the presentations, he stormed out of the conference

hall.

Benefits of Dollarization...

¶8. (SBU) Delegates applauded government for the dollarization of the Zimbabwean economy because it stopped hyperinflation overnight. Dzinotizei stated that dollarization represented a voluntary substitution of foreign currencies for the local dollar caused by the rapid loss of value in the Zimbabwe dollar due to hyperinflation, the loss of confidence in the banking sector as cash withdrawals were limited by the Reserve Bank of Zimbabwe, and a shortage of foreign exchange and uncertainty leading to postponement of investment. He noted that the dollarization of the economy resulted in some degree of policy credibility, price stability, elimination of exchange rate volatility and a fall in the cost of doing business in Zimbabwe.

... and its challenges

¶9. (SBU) Dzinotizei told the conference that there were challenges arising from the dollarization of the Zimbabwean economy, such as the loss of exchange rate and interest rate

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manipulation as policy tools. He also acknowledged that there were shortages of foreign exchange -- particularly in rural areas -- which adversely affected aggregate demand, and pointed to the need for dollarization to be accompanied by other reforms if it is to result in increased benefits to the economy. Dzinotizei suggested that dollarization was not a substitute for deeper institutional reforms that are required in government, and in particular, in the central bank.

No return to Zimbabwe dollar yet

¶10. (SBU) In spite of these challenges, Dzinotizei told delegates that calls for the return of the Zimbabwe dollar as a medium of exchange were misplaced. He said Zimbabwe can only revert to the use of the Zimbabwe dollar in the event of a consistent record of credible and predictable policies coupled with a sound payments system. Additionally, Dzinotizei stated that there was need to raise bank capitalization levels to underpin greater liquidity. He advised the group that the authorities were considering using the Rand as a reference currency in light of its utility in promoting deeper regional integration. However, Dzinotizei said that there were problems attached to this given that most cost structures are now denominated in US dollars.

COMMENT

¶11. (SBU) Recovery of the private sector in Zimbabwe is predicated on enhanced policycredibility and implementation of additional economic reforms. These will also lead to increased foreign financial inflows required to boost investment. For credibility, the government needs to quickly address the outstanding issues of the Global Political Agreement, including the restoration of the rule of law and sanctity of property rights. Finally, reconstruction of the country's dilapidated infrastructure will depend on the adoption of genuine public-private partnerships and the advantages they present in bringing in resources and reducing risk and cost to the government. END COMMENT.

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